

Report of Independent Auditors

The Commissioners
Missouri Housing Development Commission

We have audited the accompanying balance sheets of the Missouri Housing Development Commission (a body corporate and politic of the state of Missouri) as of June 30, 1999 and 1998, and the statements of revenues and expenses and changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of the Missouri Housing Development Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The year 2000 supplementary information on page 21 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB), and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because disclosure criteria specified by GASB Technical Bulletin No. 98-1 as amended are not sufficiently specific to permit us to perform procedures that would provide meaningful results. In addition, we do not provide assurance that Missouri Housing Development Commission is or will become year 2000 compliant, that Missouri Housing Development Commission year 2000 remediation efforts will be successful in whole or in part, or that parties with which Missouri Housing Development Commission does business are or will become year 2000 compliant.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri Housing Development Commission at June 30, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 1999 on our consideration of the Missouri Housing Development Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Ernst & Young LLP

Kansas City, Missouri
August 31, 1999

W. Henry Campbell

Missouri Housing Development Commission

Balance Sheets

(In Thousands)

	June 30	
	1999	1998
Assets		
Cash and temporary cash investments	\$ 27,059	\$ 9,513
Investments:		
Investment agreements	281,333	258,681
Securities purchased under agreements to resell	16,794	12,757
U.S. government and agency securities	131,101	128,588
	<u>429,228</u>	<u>400,026</u>
Mortgage investments:		
Mortgage and construction loans receivable, net of allowance for loan losses (\$11,034 in 1999 and \$9,989 in 1998)	325,087	336,299
GNMA and FannieMae mortgage-backed securities	841,778	855,382
	<u>1,166,865</u>	<u>1,191,681</u>
Other assets:		
Accrued interest receivable	11,496	12,691
Deferred financing charges	24,734	19,685
Property and equipment	1,660	1,432
Rental property	1,808	1,808
Accounts receivable, other	399	1,031
	<u>40,097</u>	<u>36,647</u>
Total assets	<u><u>\$1,663,249</u></u>	<u><u>\$1,637,867</u></u>
Liabilities and fund balances		
Liabilities:		
Bonds payable	\$1,344,507	\$1,312,904
Accrued interest payable	22,903	23,799
Escrow deposits	32,383	30,307
Rent subsidies payable	4,068	2,427
Accounts payable	3,872	2,641
Deferred financing and commitment fees	10,580	10,221
Total liabilities	<u>1,418,313</u>	<u>1,382,299</u>
Fund balances:		
Restricted by the Commission, bond resolution and state statute	217,421	208,801
Designated for net unrealized gains	—	14,625
Unrestricted fund balance	27,515	32,142
Total fund balances	<u>244,936</u>	<u>255,568</u>
Total liabilities and fund balances	<u><u>\$1,663,249</u></u>	<u><u>\$1,637,867</u></u>

See accompanying notes.

Missouri Housing Development Commission

Statements of Revenues and Expenses and Changes in Fund Balances

(In Thousands)

	Year ended June 30	
	1999	1998
Revenues:		
Income – mortgage investments	\$ 86,153	\$ 87,300
Income – investments	26,857	22,604
Net increase (decrease) in fair market value of investments	(28,426)	22,005
Financing fees and other	7,505	5,743
Federal assistance and grants	48,320	46,198
Total revenues	140,409	183,850
Expenses:		
Interest on bonds	83,738	82,920
Bank miscellaneous bond debt expense	4,819	4,850
Salaries	3,020	2,624
Administrative expenses	3,238	2,546
Provision for loan and real estate owned losses	1,120	2,520
Rent subsidy payments	2,739	3,231
Housing Trust Fund grants	4,213	3,217
(Gain) loss on extinguishment of debt, net	(166)	332
Federal assistance and grants	48,320	46,198
Total expenses	151,041	148,438
Revenues over (under) expenses	(10,632)	35,412
Fund balances, beginning of year	255,568	220,156
Fund balances, end of year	\$244,936	\$255,568

See accompanying notes.

Missouri Housing Development Commission

Statements of Cash Flows

(In Thousands)

	Year ended June 30	
	1999	1998
Operating activities		
Revenues over (under) expenses	\$ (10,632)	\$ 35,412
Adjustments to reconcile revenues over (under) expenses to net cash provided by operating activities:		
Income – mortgage investments	(86,153)	(109,305)
Income – investments	(26,857)	(22,604)
Amortization of financing charges and debt premium/discount	(6,083)	(7,985)
Provision for loan and real estate owned losses, net of charged-off loans	1,046	2,304
Interest expense related to bonds	83,738	82,920
Repayment of principal on mortgage loans	228,604	198,515
Mortgage and construction loans disbursed	(202,504)	(265,816)
Interest received on mortgage investments	86,646	87,950
U.S. Department of Housing and Urban Development grants and state grants:		
Receipts and related investment income	49,192	45,892
Disbursements and related administrative costs	(47,389)	(44,638)
Changes in assets and liabilities:		
Decrease in accounts receivable, other	631	240
Increase in escrow deposits	2,076	2,026
Increase in accounts payable	1,231	291
Increase (decrease) in deferred financing and commitment fees, net of amortization	359	(777)
Net cash provided by operating activities	73,905	4,425
Noncapital financing activities		
Repayment of principal on bonds	(270,356)	(174,580)
Net proceeds from issuance of bonds	302,994	274,034
Interest paid on bonds	(84,634)	(81,908)
Net cash provided by (used in) noncapital financing activities	(51,996)	17,546

Missouri Housing Development Commission

Statements of Cash Flows (continued)

(In Thousands)

	Year ended June 30	
	1999	1998
Investing activities		
Proceeds from sale of investments	\$1,003,747	\$682,314
Purchase of investments	(1,031,405)	(725,099)
Increase in property and equipment	(227)	(112)
Income received on investments	27,559	21,699
Increase in securities purchased under agreements to resell	(4,037)	(7,767)
Net cash used in investing activities	(4,363)	(28,965)
 Increase (decrease) in cash and cash equivalents	 17,546	 (6,994)
Cash and cash equivalents, beginning of year	9,513	16,507
Cash and cash equivalents, end of year	\$ 27,059	\$ 9,513

See accompanying notes.

Missouri Housing Development Commission

Notes to Financial Statements

June 30, 1999 and 1998

1. Authorizing Legislation

The Missouri Housing Development Commission (the Commission) is a body corporate and politic established on October 13, 1969 by Chapter 215 of the Missouri statutes. In accordance with the provisions of Chapter 215 and resolutions of the Commission, the Commission is authorized to make or purchase mortgage loans which are uninsured, partially insured, or insured or guaranteed by the federal government and to insure mortgage loans, the funds of which are to be used to develop new or rehabilitated low- and moderate-income housing. The Commission is also authorized to issue bonds for making or purchasing such loans. The outstanding balance of bonds applicable to loans not insured or guaranteed by a federal agency or to bonds rated lower than "AA" by rating agencies at the time of issuance shall not exceed \$200,000,000. At June 30, 1999, the Commission has \$2,945,000 of bonds outstanding applicable to loans that are not so insured or guaranteed or to bonds that are not so rated. Bonds issued by the Commission are not a debt of the state of Missouri.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Commission maintains its financial records on the accrual basis of accounting. Pursuant to the requirements of the Governmental Accounting Standards Board (GASB), the Commission is considered a related organization of the state of Missouri for financial reporting purposes. Accordingly, the Commission is included as a footnote disclosure in the state of Missouri's comprehensive annual financial report. The Commission has elected not to apply the pronouncements of the Financial Accounting Standards Board issued after November 30, 1989 as prescribed by GASB Statement No. 20.

Certain amounts within the 1998 financial statements have been reclassified to conform with the 1999 presentation.

Cash and Investment Policies

Chapter 215 of the Missouri statutes provides for the Commission to invest any funds not required for immediate disbursement in obligations of the state of Missouri or the United States government or any instrumentality thereof, the principal and interest of which are guaranteed by the state of Missouri or the United States government or instrumentality

Missouri Housing Development Commission

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

thereof; bank certificates of deposit; or such other investments as determined by the Commission. The general policy of the Commission is to make investments for future funding requirements and not for trading purposes.

Securities purchased under agreements to resell, U.S. government and agency securities, and mortgage-backed securities are reported at fair value as determined by the investment custodians utilizing prices quoted by securities dealers or brokers, investment bankers or statistical services on the valuation date.

Cash and Temporary Cash Investments

At June 30, 1999 and 1998, \$14,581,000 and \$4,614,000 were held in money management accounts which earned interest at rates from 3.70% to 4.13% and 5.00% to 5.29%, respectively. At June 30, 1999 and 1998, the total carrying amount of the Commission's deposits was \$27,059,000 and \$9,513,000, and the bank balances were \$28,269,000 and \$10,415,000, respectively. Of the bank balance, at June 30, 1999 and 1998, \$22,403,000 and \$5,991,000, respectively, were insured by the Federal Deposit Insurance Corporation. Of the uninsured balance in cash and temporary cash investments, \$5,795,000 and \$4,424,000 at June 30, 1999 and 1998, respectively, were collateralized by unregistered pledged securities held by the pledging financial institution or by its Trust Department or agent, but not in the Commission's name. Cash and temporary cash investments are classified as cash and cash equivalents for purposes of the statements of cash flows.

Investment Agreements

For bond issues originating after March 15, 1983, the Commission has authorized and directed the investment of funds with certain financial institutions. The total amount of funds invested in these agreements at June 30, 1999 and 1998 was \$281,333,000 and \$258,681,000, respectively, with guaranteed fixed rates of return ranging from 5.02% to 9.20% and 5.25% to 9.20%, respectively. At June 30, 1999 and 1998, investment agreements of \$47,951,000 and \$51,195,000, respectively, were collateralized by the banks with U.S. government or U.S. government agency obligations. Pursuant to the investment agreements between the Commission and the banks, investment agreements of \$233,382,000 and \$207,486,000 were uncollateralized at June 30, 1999 and 1998, respectively. The investment agreements have redemption terms that do not consider market rates, and income is based on contractual interest rates; accordingly, these agreements are reported at cost.

Missouri Housing Development Commission

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Securities Purchased Under Agreements to Resell

Investments in securities purchased under agreements to resell are carried at fair value. At June 30, 1999 and 1998, these agreements had an average interest rate of approximately 5.0% and were collateralized by the banks with U.S. government or U.S. government agency obligations.

U.S. Government and Agency Securities

Investments in U.S. government and agency securities are carried at fair value. At June 30, 1999 and 1998, securities approximating \$20,571,000 and \$21,146,000, respectively, were unregistered, maintained in book entry form in the trustees' accounts at the Federal Reserve and identified in the internal records of the trustees in the name of the Commission. At June 30, 1999 and 1998, securities totaling \$110,530,000 and \$107,442,000, respectively, were insured or registered in the Commission's name.

Mortgage Investments

Proceeds from the sale of bonds are used to make or purchase mortgage loans and to purchase Government National Mortgage Association (GNMA) and FannieMae loan mortgage-based securities. Advances made on such loans during the construction period of related housing units are recorded as construction loans and are transferred to mortgage loans upon final endorsement after construction completion. Mortgage and construction loans are reported at cost, and GNMA and FannieMae mortgage-backed securities are reported at fair value. Mortgage-backed securities do not have a contractual maturity date, and the Commission may be subject to the risk of prepayment on these securities.

Allowance for Loan Losses

The allowance for loan losses is for uninsured loans and related accrued interest on such loans. The allowance is management's estimate of uncollectible loans and related accrued interest and is based on existing payment conditions, prior experience and such other factors which, in management's opinion, require consideration.

Missouri Housing Development Commission

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Deferred Financing Charges

Costs of issuance of bonds are deferred and amortized over the life of the related issue using the outstanding bond method, which approximates the effective interest method.

Property and Equipment

Property and equipment consist of office furniture and equipment recorded at cost when acquired and, upon disposition, are relieved at cost.

Rental Property

Two rental properties have been acquired and rehabilitated for rental to persons or families of low income. These properties were recorded at cost when acquired and, upon disposition, will be relieved at cost.

Deferred Financing and Commitment Fees

Financing fees are deferred and recorded as income over the life of the related bond issuance, which approximates the life of the related mortgage loans.

Federal Assistance and Grants

The Commission administers grants and federal assistance programs, representing “pass-through” financial assistance, on the behalf of secondary recipients. In accordance with GASB Statement No. 24, “Accounting and Financial Reporting for Certain Grants and Other Financial Assistance,” the Commission recognizes financial activity related to pass-through grants and financial assistance as revenues and expenses of the Commission.

3. Description of Funds or Programs

The following describes the funds or programs maintained by the Commission, all of which conform with the statute and the respective bond resolutions.

Missouri Housing Development Commission

Notes to Financial Statements (continued)

3. Description of Funds or Programs (continued)

Operating Fund

Funding of the Operating Fund on an ongoing basis is derived principally from allowable transfers from other funds, fees earned under the Housing Assistance Payments Program, administered under Section 8 of the Housing and Community Development Act, and interest income from investments and mortgage loans. Mortgage and construction loans in the Operating Fund are insured by HUD or guaranteed by the Veterans Administration (VA) except for approximately \$55,302,000 and \$47,243,000 at June 30, 1999 and 1998, respectively, of uninsured loans net of allowance for loan losses made under the Commission's various special housing programs. These mortgages are collateralized by deeds of trust on the related properties. Included within the Operating Fund is the Tenant Assistance Program, established for the purpose of subsidizing low-income housing. Authorized activities of the Operating Fund include the following:

- Payment of general and administrative expenses and other costs not payable by other funds of the Commission
- Financing multifamily or single-family residential housing units from accumulated fund balances, if financing of such units is not provided for under existing bond indentures
- Those activities deemed necessary to fulfill the Commission's corporate purposes for which special funds are not established

Multifamily Mortgage Program

The Commission's Multifamily Mortgage Program was established to account for the proceeds from the bond sales, debt service requirements, and the related mortgage loans and mortgage-backed securities on eligible multifamily and nursing home developments. All loans, with the exception of \$24,112,000 being financed with the proceeds from the issuance of the Rental Housing Revenue bonds payable (Ecumenical Housing, Longfellow Heights, Primm Place, Truman Farm Villas, Brookstone, O'Fallon Place Apartments, and Mansion II Apartments), are insured by HUD. The Ecumenical Housing, Primm Place, Truman Farm Villas, Brookstone, O'Fallon Place Apartments and Mansion II Apartments, which totaled \$21,454,000 at June 30, 1999, are financed by the borrowers with limited obligation bonds which are denoted by "***" in *Note 4*.

Missouri Housing Development Commission

Notes to Financial Statements (continued)

3. Description of Funds or Programs (continued)

Single-Family Mortgage Program

The Commission's Single-Family Mortgage Program was established to account for the proceeds from the sale of bonds, debt service requirements and the related mortgage loans and mortgage-backed securities on eligible single-family housing units. All loans are either insured by the Federal Housing Administration or qualified private mortgage insurers or guaranteed by the VA.

4. Bonds Payable

The net proceeds of bond issues are used to provide financing for multifamily housing projects or for single-family residential housing units. The bond proceeds are deposited with and invested by various bank trust departments in qualified investments until required for such financing. These bonds are obligations of the Commission and are not liabilities of the state of Missouri. A summary of bonds payable outstanding at June 30, 1999 and 1998 follows:

Bonds Payable	Original Amount Authorized	Outstanding June 30	
		1999	1998
<i>(In Thousands)</i>			
Multifamily Mortgage Program:			
December 1, 1971 Series (5.85% to 6%), due 1999–2015	\$ 12,875	\$ 3,795	\$ 3,955
July 1, 1975 Series (7.5% to 8%), due 1999–2019	10,465	6,670	6,835
May 1, 1976 Series (6.1% to 8%), due 1999–2019	11,800	3,385	3,520
October 15, 1976 Series (5.8% to 6%), due 1999–2020	30,000	19,220	20,645
March 15, 1977 Series (5.75% to 6%), due 1999–2020	30,000	14,260	14,795
January 15, 1978 Series (5.6% to 5.75%), due 1999–2022	35,000	21,530	22,080
July 15, 1978 Series (6.3% to 6.6%), due 1999–2022	45,000	27,665	28,310
1979 Series A (6.4% to 7%), due 1999–2022	32,400	17,120	17,415
1979 Series B (6.4% to 7%), due 1999–2023	43,500	27,275	27,695

Missouri Housing Development Commission

Notes to Financial Statements (continued)

4. Bonds Payable (continued)

Bonds Payable	Original Amount Authorized	Outstanding June 30	
		1999	1998
(In Thousands)			
Multifamily Mortgage Program (continued):			
September 1, 1980 Series (9.625% to 10%), due 2007–2024	\$ 15,500	\$ 4,210	\$ 4,250
May 15, 1982 Series (9%), due 1999–2023	7,000	3,415	3,465
September 1, 1984 Series (10% to 11.25%), due 1999–2026	13,080	1,066	1,034
December 1, 1985 Series (8.4% to 9%), due 1999–2027	2,370	1,470	1,485
June 1, 1988 Series (7.5% to 8.5%), due 1999–2029	3,905	3,315	3,360
June 1, 1989 Series A (6.75% to 7.375%), due 2000–2031*	965	920	930
September 1, 1989 Series (9.25%), due 2031	1,845	1,690	1,715
March 1, 1991 Series (10%), due 2031	1,685	1,650	1,655
June 15, 1992 Series (5.35% to 6.6%), due 1999–2024	10,240	9,400	9,555
November 15, 1992 Series (5% to 6.6%), due 1999–2025	43,340	33,465	37,315
Boulevard Associates Bonds, Series 1994A (4.05% to 5.7%), due 1999–2027	4,150	3,950	4,000
1995 Series A (4% to 6.25%), due 1999–2018**	2,825	2,740	2,825
November 15, 1996 Series (7.1% to 8.05%), due 2007–2038	3,540	3,505	3,525
Series 1996 (4.5% to 5.8%), due 1999–2010**	1,435	1,295	1,345
1996 Series A (5.75% to 6.2%), due 2012–2028**	7,700	7,700	7,700
1996 Series B (6.6%), due 2003**	250	250	250
1996 Series A (5.25% to 6.2%), due 2007–2029**	8,400	8,400	8,400
Series 1998 (3.9% to 5.45%), due 1999–2028	9,045	8,910	9,045
O’Fallon Place Bonds, Series 1999 (3.7% to 5.25%), due 2002–2032**	6,710	6,710	–
Mansion II Bonds, Series 1999 (6.125% to 6.17%), due 2022–2032**	6,730	6,730	–
	401,755	251,711	247,104
Less – unamortized debt discount		(744)	(807)
		250,967	246,297

Missouri Housing Development Commission

Notes to Financial Statements (continued)

4. Bonds Payable (continued)

Bonds Payable	Original Amount Authorized	Outstanding June 30	
		1999	1998
(In Thousands)			
Single-Family Mortgage Program:			
June 15, 1976 Series (6.375%), due 2008	\$ 28,175	\$ 3,965	\$ 4,750
August 15, 1978 Series (6.3%), due 2011	28,050	—	6,260
April 1, 1985 Series (8.90% to 9.375%), due 1999–2016	100,000	3,515	7,610
1986 Series A (9%), due 2018*	19,970	1,345	2,960
September 1, 1986 Series (6.8% to 7.5%), due 1999–2017	9,925	2,505	3,445
November 1, 1986 Series (6.8% to 7.6%), due 1999–2018*	100,000	20,830	30,390
July 15, 1987 Series (7.3% to 8.65%), due 1999–2010	10,000	1,186	1,941
1988 Series A (7.3% to 8.3%), due 1999–2019*	76,200	20,925	27,460
1988 Series B (7.3% to 8.25%), due 1999–2019*	37,500	6,475	9,935
1988 Series C (7.3% to 8.25%), due 1999–2019*	37,500	8,400	11,560
1989 Series A (7% to 7.9%), due 1999–2021*	85,000	—	32,630
1989 Series B (6.95% to 7.625%), due 1999–2021*	50,000	12,905	18,870
1990 Series A (6.7% to 7.625%), due 1999–2022*	50,000	15,825	21,660
1990 Series B (6.6% to 7.75%), due 1999–2022*	85,000	21,200	30,720
1991 Series A (6.1% to 7.375%), due 1999–2024*	140,000	61,790	79,630
September 1, 1991 Series A (8.6%), due 2006	40,600	—	1,595
September 1, 1991 Series B (7% to 7.25%), due 2011–2013	18,200	18,605	20,057
1991 Series B (5.75% to 6.3%), due 1999–2003*	12,000	2,650	3,780
1991 Series C (6.35% to 7.35%), due 2008–2024*	53,485	25,279	29,282
1992 Series A (5.5% to 6.75%), due 1999–2024*	75,000	30,860	37,250
1992 Series B (5% to 6.4%), due 1999–2025*	75,000	46,985	54,585
1994 Series A (5.6% to 7.3%), due 1999–2026*	100,000	33,925	45,080
1995 Series A (4.55% to 6.22%), due 1999–2027*	55,000	45,050	51,705
1995 Series B (4.4% to 6.45%), due 1999–2028*	30,000	25,190	27,945
1995 Series C (4.3% to 7.25%), due 1999–2027*	30,000	20,685	25,245
1995 Series D (4.25% to 6.15%), due 1999–2027*	16,800	12,445	13,190
1996 Series A (4.25% to 7.2%), due 1999–2027*	41,000	31,330	37,640
1996 Series B (4.4% to 7.55%), due 1999–2028*	29,060	19,910	25,210
1996 Series C (4.25% to 7.45%), due 1999–2028*	32,925	25,450	29,850
1996 Series D (4.2% to 7.1%), due 1999–2028*	46,640	38,455	41,345

Missouri Housing Development Commission

Notes to Financial Statements (continued)

4. Bonds Payable (continued)

Bonds Payable	Original Amount Authorized	Outstanding June 30 1999 1998
<i>(In Thousands)</i>		
Single-Family Mortgage Program (continued):		
1997 Series A (4.2% to 7.23%), due 1999–2029*	\$ 50,000	\$ 40,930 \$ 48,065
1997 Series A-4 (4.15% to 5.65%), due 2000–2029*	10,000	7,995 10,000
1997 Series B (4.05% to 6.85%), due 1999–2029*	64,500	60,845 63,775
1997 Series C (4.15% to 6.85%), due 1999–2029*	55,625	53,030 55,625
Draw Down Series 1998 (4.73%), due 1999	31,500	– 27,900
1998 Series B (4% to 6.4%), due 1999–2030*	70,000	68,380 70,000
1998 Series C (3.9%), due 1999	38,565	– 38,565
Draw Down Series 1998B (4.75%), due 1999	100,000	– 2,595
1998 Series D (3.85% to 6.5%), due 1999–2029*	70,000	70,000 –
1998 Series E (3.7% to 8.45%), due 2000–2029*	50,000	50,053 –
1999 Series I (5.1%), due 2030	5,095	5,095 –
Draw Down Series 1999 A (4.19%), due 2000	150,000	83,065 –
1999 Series A (3.4% to 6.3%), due 2000–2030*	75,000	75,000 –
	2,283,315	1,072,078 1,050,105
Less – unamortized debt discount		(1,548) (2,599)
Add – unamortized debt premium		17,765 13,572
		1,088,295 1,061,078
Total	\$2,685,070	\$1,339,262 \$1,307,375

The proceeds of bond issues denoted by “*” are used to purchase GNMA mortgage-backed securities, which are backed by mortgage loans originated through the Commission’s loan programs.

The proceeds of bond issues denoted by “**” are used to provide financing for multifamily housing projects. These bonds are limited obligations of the Commission, payable solely from and secured by a loan agreement between the Commission and the borrower.

Missouri Housing Development Commission

Notes to Financial Statements (continued)

4. Bonds Payable (continued)

All bonds have early redemption provisions. A summary of future annual scheduled principal maturities, which excludes unamortized debt discount and premium, follows (*in thousands*):

Bonds Maturing During Year Ending June 30	
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2000	\$ 17,365
2001	102,541
2002	20,374
2003	21,042
2004	21,288
Thereafter	1,141,179
	<u>\$1,323,789</u>

In addition to bonds payable, the Commission has available two lines of credit totaling \$5,050,000 and \$1,108,000. At June 30, 1999, these lines of credit had outstanding balances of \$4,248,000 and \$997,000, at interest rates of 7.27% and 7.02%, and are due September 2010 and January 2012, respectively.

5. Escrow Deposits and Rent Subsidies Payable

Escrow deposits represent funds paid by project developers for real estate taxes, insurance, future replacements of property and other costs.

Rent subsidies payable represent funds received from HUD for payment of rent subsidies to participants in the HUD Section 8 Housing Assistance Program.

Such funds held by the Commission are included in cash and temporary cash investments.

Missouri Housing Development Commission

Notes to Financial Statements (continued)

6. Pension Plan

All Commission employees participate in the Missouri State Employees' Plan (MSEP) administered by the Missouri State Employees Retirement System (the System), a single-employer public employee retirement plan. MSEP provides retirement, death and disability benefits to its members. As established by Missouri statutes, responsibility for the operation and administration of MSEP is vested in the Missouri State Employees Retirement System Board of Trustees. The System issues a publicly available financial report that includes financial statements and required supplementary information for MSEP. That report may be obtained by writing to the Missouri State Employees Retirement System, 906 Leslie Boulevard, P.O. Box 209, Jefferson City, Missouri 65101, or by calling 1-800-827-1063.

Covered employees do not contribute toward the plan. The employer is required to contribute at an actuarially determined rate. The contribution requirement for the years ended June 30, 1999, 1998 and 1997 was \$418,000, \$311,000 and \$303,000, respectively; these contributions represented 13.8%, 11.7% and 12% of total payroll during 1999, 1998 and 1997, respectively. These contributions are expensed by the Commission when incurred.

As determined in accordance with GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," the Commission has no pension liability, as required contributions are paid when due. This treatment is consistent with prior years.

7. Restrictions and Commitments

Resolutions of the Commission require that, to the extent funds are available in the general account of each bond fund, they are to be transferred to a debt service account on a periodic basis, from the date of bond issuance to the date of each succeeding maturity, sufficient to make principal and interest payments on the bonds as they become due. Funds within the general account of each bond fund are on deposit in restricted accounts.

In addition, the statute and resolutions of the Commission require that for certain bond issues an amount be maintained in reserve accounts to be used to make principal and interest payments on payment due dates. Such amounts are on deposit in restricted accounts for the various issues within the Multifamily and Single-Family Mortgage Programs.

Missouri Housing Development Commission

Notes to Financial Statements (continued)

7. Restrictions and Commitments (continued)

Below is a summary of the amounts restricted at June 30, 1999 and 1998:

	1999	1998
	<i>(In Thousands)</i>	
Cash and temporary cash investments	\$ 27,428	\$ 8,374
Investments	359,286	335,120
Accrued interest receivable	10,339	11,500
	<u>\$397,053</u>	<u>\$354,994</u>

Included in the above restricted amounts, \$33,046,000 and \$30,307,000 at June 30, 1999 and 1998, respectively, are held as escrow deposits, and \$187,136,000 and \$155,249,000, respectively, are restricted for making or purchasing mortgage and construction loans.

Pursuant to certain of its resolutions, the Commission has restricted the fund balances of the Multifamily Mortgage Program and the Single-Family Mortgage Program to maintain a level of reserves necessary to provide sound fiscal operations. In addition, through various resolutions for the Multifamily Mortgage Program, the Single-Family Mortgage Program and activities of the Operating Fund, the Commission has reserved internally generated funds for financing residential housing units and for providing rental housing assistance, which are included in restricted fund balances. In 1997, the Commission acquired a portfolio of loans from HUD. Revenues collected from these HUD purchased loans are restricted by an agreement between the Commission and HUD to be used primarily for rehabilitation loans or grants.

Pursuant to state statute, the Commission has restricted the amount of fund balance representing revenues over expenses related to the financial activity of the Missouri Housing Trust Fund. The Missouri Housing Trust Fund was created by Section 215.035 of the Missouri statutes. Revenues of the Missouri Housing Trust Fund are restricted to programs which financially assist, by loans or grants, the development of housing stock and which provide housing assistance to persons and families with incomes at or below specified levels. In accordance with requirements of the Governmental Accounting Standards Board, the Missouri Housing Trust Fund's financial activities are included in the financial statements of the Commission.

Missouri Housing Development Commission

Notes to Financial Statements (continued)

7. Restrictions and Commitments (continued)

Below is a summary of restricted fund balances by the Commission, bond resolution and state statute as of June 30, 1999 and 1998:

	1999	1998
	<i>(In Thousands)</i>	
Restricted by Commission:		
Tenant assistance	\$ 44,130	\$ 44,989
Loans not funded by a bond sale	77,125	73,174
Loan commitments not yet disbursed	16,622	20,538
Reserves committed to Home Improvement and Multifamily interest subsidy program	5,799	5,799
Restricted earnings of HUD purchased loans	5,818	2,993
Unamortized bond premiums/discounts and financing costs, net of deferred commitment fees	2,379	2,449
	151,873	149,942
Restricted by bond resolution	59,647	53,076
Restricted by state statute – Missouri Housing Trust Fund	5,901	5,783
	\$217,421	\$208,801

The Commission rents office space under a 10-year lease, which is accounted for as an operating lease and can be extended at the option of the Commission for two successive five-year periods. Lease expenditures for the years ended June 30, 1999 and 1998 were \$349,000. Future minimum lease payments for this lease are as follows *(in thousands)*:

<u>Year ending June 30</u>	
2000	\$ 349
2001	349
2002	349
2003	349
2004	349
Thereafter	553
	<u>2,298</u>

Missouri Housing Development Commission

Notes to Financial Statements (continued)

8. Contingencies

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Commission carries commercial insurance.

9. Subsequent Event

Prior to June 30, 1999, the Commission approved Missouri Housing Development Commission Single-Family Mortgage Revenue Bonds (Homeownership Loan Program), 1999 Series B, totaling \$75,000,000. These bonds were issued in July 1999.

Required Supplementary Information

Missouri Housing Development Commission

Required Supplementary Information

Year 2000 Impact

The year 2000 impact relates to how an abundance of electronically controlled devices, including computers and computer programs, may not operate correctly or even may not operate at all. This is due to the way in which programmers and computer chip manufacturers used dates in programming electronic devices. For example, it is often customary for a person in everyday conversation and in writing to use two digits when referencing a year (i.e., the class of '98, the date is 05-23-98 or May 23, 98, etc.). Many electronic devices were programmed much the same way, referencing only the last two digits of the year. As you can imagine, this can cause a problem in deciding if the year 00 is 1900 or 2000.

The Commission has aggressively responded to this issue to see that the Commission-owned information technology, including computers, network electronics and computer programs will function properly beyond 1999. The Commission has established a "Year 2000 Report and Plan" that identifies issues, provides solutions and identifies specific components that could be effected by the year 2000 issue. The plan which has been made available to the public by request and through the Commission's Web site, also provides a year 2000 disclosure statement. The Commission has continued to update its report following a schedule of steps that have been identified as necessary stages to implement a year 2000 compliant system:

- **Awareness Stage:** The Commission has established a budget and project plan.
- **Assessment Stage:** The Commission has identified all of its systems and prepared an inventory.
- **Remediation Stage:** The Commission actually made changes to systems and evaluated the technical issues of converting existing systems or switching to compliant systems.
- **Validation/Testing Stage:** The Commission began evaluating and testing the systems that were converted or replaced.
- **Implementation Stage:** The Commission's year 2000 compliant systems were ready for use.
- **Contingency Planning Stage:** The Commission has established a documented "Y2K Contingency Plan."

The Commission has been through each of the steps on the identified systems that the Commission's Management Information Systems administered. The Commission has also established a Disaster and Y2K Contingency Plan.

Missouri Housing Development Commission

Required Supplementary Information (continued)

Year 2000 Impact

The Commission has recently completed significant upgrades in its information technology to be ready for the year 2000. Some of the major accomplishments completed as of September 1999 include, but are not limited to:

- Placing in service new year 2000 compliant network servers, network electronics and software
- Placing in service new year 2000 compliant PC workstations and productivity software
- Upgrades or replacement to business critical applications for year 2000 compliance
- Year 2000 compliance testing and upgrading
- Evaluating business partners status on year 2000 compliance

The Commission has committed itself to provide quick and responsive solutions in the event of any unforeseen internal or external year 2000 related abnormalities. The Commission is confident that its information technology will be a strong performer in the new millennium.

Missouri Housing Development Commission

Single-Family Mortgage Loans Outstanding – By Servicer